

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WARREN COUNTY WATER)	
DISTRICT, WARREN COUNTY, KENTUCKY (A))	
FOR A CERTIFICATE OF CONVENIENCE AND)	
NECESSITY PURSUANT TO KRS 278.020)	
AUTHORIZING SAID DISTRICT TO CONSTRUCT)	
IMPROVEMENTS AND EXTENSIONS TO ITS)	
EXISTING SEWER SYSTEM WHICH)	
IMPROVEMENTS AND EXTENSIONS WILL BE)	CASE NO. 2011-00418
FINANCED IN WHOLE OR IN PART UNDER THE)	
TERMS OF AN AGREEMENT BETWEEN THE)	
WATER DISTRICT AND THE KENTUCKY)	
INFRASTRUCTURE AUTHORITY AND (B) FOR)	
AUTHORITY TO ISSUE CERTAIN SECURITIES)	
AS REQUIRED BY KRS 278.300)	

ORDER

Warren County Water District ("Warren District") has applied for a Certificate of Public Convenience and Necessity to construct a sewer main extension, authorization to enter a loan agreement with the Kentucky Infrastructure Authority ("KIA"), and approval of its Buchanan Park Sewer Interceptor Capital Recovery Area ("SICRA") fee to recover a portion of the proposed main extension's cost. The Commission has previously granted the application for a Certificate of Public Convenience and Necessity and authorized entry into the loan agreement. By this Order, we approve Warren District's proposed SICRA fee.

Warren District is a water and sewer district that is organized pursuant to KRS Chapter 74. It owns and operates facilities that collect and transport sewage for approximately 4,557 customers in Warren County, Kentucky.¹ It has a contract with Bowling Green Municipal Utilities for the treatment of the collected sewage.² Warren District is a utility subject to Commission's jurisdiction.³

Warren District sought and was granted a Certificate of Public Convenience and Necessity to construct approximately 10,500 linear feet of gravity sewer main south of Bowling Green, Kentucky along U.S. Highway 31W to serve Michael O. Buchanon Park ("Buchanon Park") and several properties along U.S. Highway 31W. This sewer main will connect to an existing gravity sewer main near a Warren District wastewater pumping station adjacent to Kentucky Highway 242, approximately 0.33 miles east of U.S. Highway 31W. From this point, the sewer main will extend approximately 3,000 feet westerly to a point near the intersection of U.S. Highway 31W and Kentucky Highway 242, then southerly adjacent to U.S. Highway 31W to a point. From that point, it will continue adjacent to U.S. Highway 31W approximately 4,400 feet. A private sewer main will extend from the end of the proposed sewer main, easterly, approximately 2,500 feet into Buchanon Park.⁴

¹ *Report of Warren County Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2011 (Sewer Division)* at 1 and 12.

² See http://www.psc.state.ky.us/tariffs/Sewer/Warren%20County%20Water%20District%20-%20Sewer%20Division/xContracts/Bowling%20Green%20Water,%20Sewer%20and%20Sanitation%20Commission/1974-06-18_Supplement%20to%20Agreement.pdf.

³ KRS 278.010(3)(f); KRS 278.015.

⁴ For a more detailed description of the proposed sewer main, see *Engineering Report* at 2 (filed Oct. 20, 2011).

The Commission has previously determined that the public convenience and necessity require the construction of the proposed sewer main.⁵ No public or municipal utility currently operates any sewage collection or treatment facilities in the area in which the proposed sewer main is to be located. While the majority of the area along the route of the proposed sewer main is presently zoned for agricultural use, Warren District anticipates that zoning for significant portions of the area will be reclassified as residential upon the availability of sewage collection mains and an increased demand for sewer service as a result of such rezoning.⁶

Buchanon Park, moreover, has an immediate need for sewer service. Wastewater from Buchanon Park is currently treated onsite by a septic tank and leach field. These facilities require significant maintenance, are no longer operating at an optimum level, and pose an obstacle to the construction and expansion of the park's recreational facilities.⁷

Warren District proposes to finance the cost of the proposed facility with a loan of \$823,900 from KIA; a contribution of \$170,240 from Warren County Fiscal Court; and internal funds of \$142,160 from its depreciation reserve account. Warren District's proposed loan with KIA is for a 20-year period and has an interest rate of 3 percent per annum.

To pay the cost of servicing the proposed KIA loan, Warren District proposes to assess a fee for each connection to the proposed sewer main that is made within the

⁵ Order of Dec. 8, 2011 at 5.

⁶ Warren County Water District's Response to Commission Staff's First Information Request, Items 4 and 15 (filed Dec. 7, 2011.).

⁷ *Engineering Report* at 2.

“Buchanon Park SICRA.” This area generally consists of properties that can be connected to the proposed interceptor sewer with gravity sewers.⁸ The size of the water meter serving the connecting party’s property will determine the amount of this fee. Warren District will assess customers receiving water service through a 5/8-inch water meter a fee of \$700 per connection. For customers with larger sized water meters, the fee will be based upon meter diameter ratio.⁹

Warren District based the connection fee upon the potential number of residential units within the Buchanon Park SICRA. The Buchanon Park SICRA occupies approximately 1,025 acres. Its total developable area is approximately 590 acres.¹⁰ Using the density of recently developed residential subdivisions in the vicinity of the Buchanon Park SICRA, Warren District assumes that the residential density of new residential subdivision developments will be approximately two units per acre.¹¹ Given the total developable area, Warren District estimates that approximately 1,180

⁸ For a map of this area, see App. B to this Order.

⁹ The chart below shows how the fee is calculated:

Water Meter Size	Meter Diameter Ratio	Contribution Amount
5/8-Inch	1.0	\$ 700
1-Inch	1.6	1,120
1 1/2-Inch	2.4	1,680
2-Inch	3.2	2,240
3-Inch	4.8	3,360
4-Inch	6.4	4,480
6-Inch	9.6	6,720

¹⁰ Warren County Water District’s Response to Commission Staff’s Second Request for Information, Item 4 (filed Jan. 20, 2012).

¹¹ Warren County Water District’s Response to Commission Staff’s First Request for Information, Item 9.

residential units may connect to the proposed sewer main.¹² Apportioning the KIA loan principal amount equally among these potential connections produces a fee of approximately \$700.¹³

Warren District proposes to use the revenues from the SICRA fees solely to pay the debt service on the proposed KIA loan. It proposes to collect the SICRA fee until December 31, 2031, when the final debt service payment is scheduled. Based upon its assumptions regarding the development within the SICRA, Warren District expects the SICRA fee to produce total revenues not to exceed \$823,000, the principal amount of the KIA loan.

To assure payment of the KIA loan, Warren County Fiscal Court entered into an agreement with Warren District in which Warren County Fiscal Court pledged to pay to KIA any shortfall in debt service not covered by revenues generated from the proposed SICRA fee for the fiscal year ending June 30, 2012 and to automatically renew this pledge for each subsequent fiscal year until the KIA loan is paid in full. If no connections are made to the proposed sewer main and Warren County Fiscal Court remains constant to its pledge,¹⁴ it would pay \$1,126,492 over a 20-year period.¹⁵

¹² *Id.*, Ex. E.

¹³ $\$823,900 \div 1,180 \text{ units} = \698.22 per unit.

¹⁴ The Agreement between Warren District and Warren County Fiscal Court provides that the Fiscal Court will automatically renew its pledge for each subsequent fiscal year until the KIA loan is paid in full unless Fiscal Court "notifies the Water District in writing, within sixty (60) days prior of the end of any fiscal year that such pledge shall not so renew." Application, Ex. C at 3. Warren District states that this provision was "included solely in order to comply with existing law which prohibits the Fiscal Court from binding itself beyond the current year." Warren County Water District's Response to Commission Staff's First Information Request, Item 18. Warren District states that no basis exists to believe that Warren County Fiscal Court "will not continue to honor its obligations . . . until full performance of its contractual obligations." *Id.*

¹⁵ Application, Ex. I.

Warren District states that the proposed SICRA will ensure a proper distribution of the proposed sewer main's costs among all users. It notes that, as a result of Warren County Fiscal Court's agreement to guarantee the payment of the KIA loan, Warren County Fiscal Court bears the initial risk for payment of the cost of the proposed sewer main. Once the sewer main is constructed, however, landowners in the area that the sewer main serves will benefit as they connect to it. The proposed SICRA fee, Warren District asserts, allows Warren County Fiscal Court to recover some of the cost of its investment and to reduce its risk for payment of the KIA loan's total debt service. It will also ensure that others who benefit from the sewer main pay a portion of the cost of the proposed sewer main.

Warren District asserts that the assessment of the SICRA, by permitting the initial user to recover some of its principal investment for a sewer main extension that will eventually benefit a larger group of users, encourages the extension of sewer mains without increasing the rates of existing sewer users or depleting the water district's financial reserves.

The Commission has carefully reviewed Warren District's assumptions and calculations and finds them reasonable. We further find that the proposed SICRA fee will reasonably allocate the cost of the proposed sewer main extension among its likely users. The proposed SICRA embodies some of the policies that are found in 807 KAR 5:066, Section 11(2)(b). It places the risk for a substantial portion of the main's cost

upon the party that will immediately benefit from its construction, but requires others to bear a portion. It further ensures that the utility bears a portion of the cost of the main.¹⁶

To ensure that the SICRA fee will not generate excessive revenues, we find that the assessment of the SICRA fee should terminate on December 31, 2031 or after SICRA fees of \$1,122,012¹⁷ have been assessed, whichever occurs first. To avoid potential misunderstandings with its customers, Warren District should revise its tariff sheets to identify clearly the area to which the SICRA fee will apply and to include a map of such area. Finally, we find that Warren District should annually report its assessment and collection of SICRA fees.

IT IS THEREFORE ORDERED that:

1. Warren District is authorized to assess the proposed Buchanan Park SICRA fee, as set forth in Appendix A to this Order, for each connection made to the Buchanan Park sewer main extension on and after the date of this Order.

2. Warren District shall cease assessment of the Buchanan Park SICRA fee on December 31, 2031 or when its cumulative assessment of Buchanan Park SICRA fees totals \$1,122,012 or when it has paid the KIA loan which it executed to finance the Buchanan Park sewer main extension, whichever occurs first.

3. Within 30 days of the date of this Order, Warren District shall file revised tariff sheets that reflect the fees approved in this Order and contain a description of the area that is subject to the Buchanan Park SICRA fee. At a minimum, this description

¹⁶ The Commission has yet to establish a policy for sewer main extensions in its administrative regulations. We have noted this absence in other proceedings. *See, e.g.*, Case No. 2011-00198, *Proposed Revisions to Jessamine-South Elkhorn Water District's Rules Regarding The Provision Of Sewer Service* (Ky. PSC Mar. 2, 2012) at 5, n.12. In the absence of such policy, Warren District is not expressly required to make any contribution toward the cost of a sewer main extension.

¹⁷ \$1,122,012 = \$1,126,492 (Total Debt Service Cost) - \$4,480 (Warren County Fiscal Court's SICRA fee if assessed).

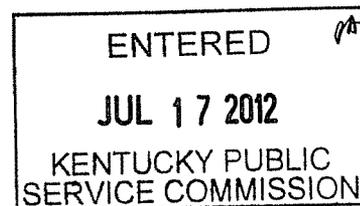
shall include a map of the Buchanan Park SICRA and a listing of all streets and roadways within the Buchanan Park SICRA.

4. Warren District shall maintain a current description of the Buchanan Park SICRA in its filed rate schedules as long as the Buchanan Park SICRA fee remains in effect.

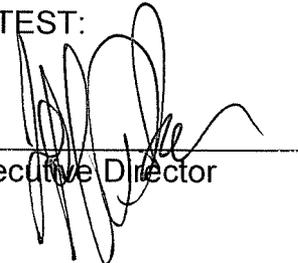
5. Beginning in 2013, for the period from the date of this Order through December 31, 2012, and for each calendar year thereafter in which the surcharge is effective, Warren District shall submit with the annual financial and statistical report required by 807 KAR 5:006, Section 3(1), a written report stating the total Buchanan Park SICRA fees billed during the preceding calendar year and the total Buchanan Park SICRA fees billed since the date of this Order.

6. Warren District shall maintain separate accounts for the billing and collection of Buchanan Park SICRA fees.

By the Commission



ATTEST:



Executive Director

Case No. 2011-00418

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00418 DATED JUL 17 2012

The following rates and charges are prescribed for the customers in the area served by Warren County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order

Buchanon SICRA Rate

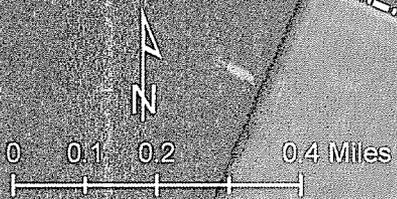
In addition to connection fees already set forth in Warren County Water District's filed rate schedule, through December 31, 2031, or until the total assessment of \$1,122,012, or full payment of the KIA loan which Warren District executed to finance a sewer main extension, whichever occurs first, customers applying for initial sewer service on a property within the boundary delineated for the Buchanon Part Sewer Interceptor Capital Recovery Area shall pay the following contribution:

<u>Water Meter Size</u>	<u>Contribution Amount</u>
5/8-Inch	\$ 700
1-Inch	1,120
1 1/2-Inch	1,680
2-Inch	2,240
3-Inch	3,360
4-Inch	4,480
6-Inch	6,720

APPENDIX B
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00418 DATED JUL 17 2012



- Sewer Interceptor Capital Recovery Area (SICRA)
- Proposed Sewer Extension
- US Highways
- State Roads
- Local Roads



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